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SUBJECT: IN SURPRISE MOVE, GOE ANNOUNCES PLANS TO SELL BANQUE DU CAIRE

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Summary

1. (SBU) On July 8, Egypt's Central Bank announced that it would sell the publicly-owned Banque du Caire, the third largest bank in the country. The announcement caught many off guard, as the GOE had previously indicated it would not privatize any other public banks after last year's sale of Bank of Alexandria (BOA). The Central Bank indicated that the terms of the sale would be similar to those of BOA.

While BOA's non-performing loans (NPLs) were paid off before BOA was put on the block, the disposition of Banque du Caire's NPLs is still unclear. The Central Bank announced that a committee would be formed to conduct a valuation of Banque du Caire and a sale advisor would be chosen in a few weeks. The actual process of valuation and due diligence could take some time, however, given the complexity of Banque du Caire's balance sheet. Central Bank officials also voiced concern over the inevitable opposition to sale of the bank. The IMF and World Bank support the sale, and believe there will be strong interest from investors. Overall the sale is an important step in the ongoing banking sector restructuring and reform process in Egypt.

GOE to sell Banque du Caire

2. (U) In a surprise move, the Central Bank announced plans on July 8 to sell the state-owned Banque du Caire. The Central Bank had announced plans in September 2005 to merge Banque du Caire with Banque Misr, but those plans changed when it was determined that merger would be too difficult. Instead, Banque Misr acquired Banque du Caire in January 2007 and set about reforming the latter's management and cleaning up its balance sheet, with its ultimate fate undetermined. Cabinet Spokesperson Magdi Radi said that the Cabinet approved the plan to sell off Banque du Caire after deciding that keeping the entity as part of Banque Misr would result in too many redundancies. Banque Misr already has 540 branches, and Banque du Caire 220, many of which are on the same street.

3. (SBU) The Central Bank announced that the terms of the sale would be similar to those of BOA, with a strategic investor invited to purchase 80% of the bank's shares, 15% to be sold in an IPO after sale to the strategic investor, and 5% reserved for bank employees.

The GOE obtained \$1.6 billion from Italian-based SanPaolo Bank for BOA, but only after all of BOA's NPLs were paid off using proceeds from the GOE's issuance of a third mobile phone license. The disposition of Banque du Caire's NPLs, however, is still unclear. Some observers estimate that Banque du Caire still has distressed assets of LE 12 billion (\$2 billion), or approximately 73% of the bank's total loans. Deputy Central Bank Governor Tarek Amer told emboff, however, that all of Banque du Caire's NPLs had been transferred to Banque Misr after the acquisition.

14. (SBU) Regardless of the disposition of Banque du Caire's NPLs, most observers agree that the GOE is unlikely to obtain as much for Banque du Caire as it obtained for BOA, given Banque du Caire's weaker balance sheet. The BOA sale demonstrated, however, the intense interest of international investors in acquiring banking assets in Egypt. The Central Bank is expecting some of BOA's 13 bidders to bid again on Banque du Caire. Several of the BOA bidders were Gulf banks, and many observers believe more Gulf banks will bid this time around due to excess liquidity in the region. We have heard that Citi Group and Commercial International Bank (a top Egyptian bank which has U.S. and IFC ownership) may also be interested.

Timetable for sale

15. (U) The GOE will form a committee to evaluate Banque du Caire and determine an asking price per share. The committee will include representatives from the Capital Market Authority, the Administrative Control Authority, the Central Auditing Agency and the Ministries of Investment and Finance. The Central Bank announced that a sale advisor would be selected within the next two weeks and an international tender issued by September, thus setting a relatively short deadline for completing the valuation. (Comment: The deadline may be unrealistic, given the complexity of Banque du Caire's balance sheet).

16. (SBU) The GOE has not announced how it will use proceeds from the sale, but many analysts believe it will be either to resolve the remaining NPLs of the other public banks or to pay down the budget deficit. Some press reports speculate that net capital gains from the sale will be used to further recapitalize Banque Misr. (Comment: If Deputy Governor Amer's comments are accurate, Banque Misr's balance sheet is no doubt weaker as a result of absorbing Banque du Caire's NPLs. However, the GOE is likely relying on the strong management at Banque Misr to handle a larger portfolio of distressed assets).

Opposition to the Sale

17. (SBU) Deputy Governor Amer told emboff he was very concerned about the inevitable opposition to selling of Banque du Caire. Indeed, within days of announcement of the sale, Yehia Hussein Abdel Hadi, an Undersecretary at the GOE Institute of Leaders Training and former chairman of the publicly-owned department store "Benzione," established "The Social Movement in Opposition to Selling Banque du Caire," with himself as Coordinator. Abdel Hadi told the press that the sale demonstrated the duplicity of the GOE, which had indicated that no other public banks would be sold after BOA. He further called on all depositors to withdraw their savings and transfer their pensions from Banque du Caire to Banque Misr or NBE. He added that anyone who purchases shares of Banque du Caire should be considered an enemy of the Egyptian people. Abdel Hadi spearheaded the failed opposition to the GOE's sale of Egypt's flagship department store "Omar Effendi" and is also the Economic Expert of the Kefaya Movement, leading that organization's "No to Selling Egypt" anti-privatization campaign.

18. (U) Some private sector bankers also question the feasibility and benefit of selling Banque du Caire. Overall, bankers are most critical of the GOE's lack of transparency in banking sector policy, evidenced by this sudden shift in policy regarding further sales of public sector banks. Some parliamentarians have floated the notion that the IMF's recent mission to Egypt for Article IV consultations

had an undue influence on the decision to sell Banque du Caire. These parliamentarians have argued that the GOE should not succumb to the IMF's demands, as doing so increases foreign control of the banking sector in Egypt.

IMF, World Bank Views

¶9. (SBU) The IMF, and particularly the recent Financial Sector Assessment Program (FSAP) mission, certainly pressed the GOE and Central Bank to better define the disposition of the state-owned banks. The IMF Resident Representative had indicated to Embassy officials several weeks ago that he would not be surprised if Banque du Caire was sold in the coming years, but when asked about last week's sudden announcement, he admitted to being quite surprised. Sahar Nasr, Senior Financial Economist at the World Bank's office in Cairo, was less surprised by the decision. She told emboff that several months ago the World Bank wrote an aide memoire, seen by Prime Minister Nazif, which indicated that Banque du Caire had to be privatized. She expected strong interest from international bidders, and believed that Banque du Caire was a worthwhile purchase, if only for the extensive branch network. Given that the Central Bank will not issue banking licenses for new banks in Egypt and that the Board of Governors of the Central Bank must approve the opening of every new branch in Egypt, the purchase of Banque du Caire would allow any bank which with growth aspirations to quickly become a national player.

Comment

¶10. (SBU) The GOE apparently hopes that bringing another private bank, likely a foreign entity, into Egypt's banking sector will improve the sector's image and the quality of financial services in Egypt, while providing the GOE with additional revenue. The international community has supported the GOE's banking sector reform program for the past several years, but the GOE has not provided clarity about what the end-game was for the three remaining state-owned banks. The announcement of the sale of Banque du Caire is a step in that direction. Assuming this sale goes through, this

move should further improve the efficiency of the Egyptian banking sector and help contribute to better allocation of financial resources. Obviously, putting in place proper risk management tools and strong management will be needed as well.

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